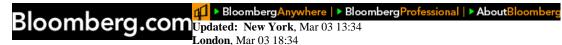
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- Treasuries Climb as Reports Spur Concern Recession Is Deepening

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By Dakin Campbell

Feb. 2 (Bloomberg) -- Treasuries gained for a second day as reports showed U.S. manufacturing contracted for the 12th straight month and consumer spending declined for a sixth month, raising concern the recession is deepening.

Ten- and 30-year securities led the gains before another report later this week that is forecast to show the unemployment rate jumped to the highest level in 16 years. The Treasury said it will borrow \$493 billion this quarter, 34 percent more than initially projected. It will announce on Feb. 4 the amounts of 3-, 10and 30-year debt it will sell next week.

"The numbers fully support what is going on in the economy," said Kevin Giddis, head of fixed-income sales, trading and research at the brokerage Morgan Keegan Inc. in Memphis, Tennessee. "This week is economics, and next week is supply."

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The benchmark 10-year note's yield plunged 13 basis points, or 0.13 percentage point, to 2.72 percent at 4:07 p.m. in New York, according to BGCantor Market Data. The price of the 3.75 percent security due in November 2018 climbed 1 5/32, or \$11.56 per \$1,000 face amount, to 108 26/32.

The 30-year bond yield tumbled 13 basis points to 3.47 percent. The yield on the two-year note fell six basis points to 0.88 percent.

The Institute for Supply Management's factory index was 35.6 in January, up from 32.9 in the prior month, the Tempe, Arizona-based group said. Readings less than 50 signal a contraction, and the index has been below that level since February 2008.

More Debt

Investors in 30-year bonds lost 14.6 percent last month, according to Merrill Lynch & Co. index data, amid concern the government will sell an unprecedented amount of debt this year. January was the worst month for the so-called long bond since Merrill Lynch began tracking returns on the securities in 1988.

Weaker economic growth and a Federal Reserve borrowing program will force the U.S. to sell more debt this quarter than the \$368 billion it projected in November, the Treasury said.

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The government sold \$78 billion of notes and bonds last week and may sell as much as \$75 billion more next week, according to George Goncalves, the New York-based chief Treasury and agency strategist at Morgan Stanley. The firm is one of the 17 primary dealers that trade with the Fed and are required to bid in Treasury auctions.

Until then, the market will likely react to economic reports being released this week and any news from the government about an economic stimulus plan.

"All eyes will be on the data, all of which could be pretty weak," said <u>Carl Lantz</u>, an interest-rate strategist in New York at Credit Suisse Securities USA LLC, another primary dealer. "People are looking to buy the dips" in Treasury prices.

Unemployment Forecast

Ten-year notes outperformed two-year securities, sending the difference in yield between them down by six basis points to 1.83 percentage points.

<u>Unemployment</u> climbed in January to 7.5 percent, and payrolls fell by 530,000, the 13th consecutive decrease, according to the median estimate in a Bloomberg News survey ahead of Labor Department figures due Feb. 6.

Manufacturing is likely to keep contracting as companies from General Motors Corp. to Caterpillar Inc. cut output and shed workers. President <u>Barack Obama</u> last week highlighted the deteriorating economy to push for Congress to enact his recovery plan. Republican Senator <u>Jon Kyl</u> of Arizona said yesterday that support for the plan is "eroding" among his Senate colleagues.

Stimulus Resistance

"The news that the stimulus package is meeting resistance in the Senate and also the news that we won't hear anything about the 'bad bank' this week" is making investors nervous, said Martin Mitchell, head of government bond trading at the Baltimore unit of Stifel Nicolaus & Co. "Those things are contributing to the bid."

A so-called bad bank, one approach under consideration, would take toxic assets off banks' balance sheets.

Consumer spending in the U.S. fell 1 percent in December, capping the worst year since 1961, the Commerce Department said today in Washington.

Yields indicate Treasury investors are betting inflation will accelerate after the Fed cut interest rates to a range of zero to 0.25 percent and as Obama aims for \$819 billion in spending initiatives and tax cuts to spur the economy.

"If you're a Treasury investor, you are not in a hurry for the government to launch a trillion-dollar spending package," said <u>Jay Mueller</u>, who manages about \$3 billion of bonds at Wells Fargo Capital Management in Milwaukee.

Tight Credit

The U.S. will probably borrow \$2.5 trillion during the fiscal year ending Sept. 30, almost triple the \$892 billion in notes and bonds it sold the prior 12 months, according to primary dealer Goldman Sachs Group Inc.

The difference between rates on 10-year notes and Treasury Inflation Protected Securities, or <u>TIPS</u>, which reflects the outlook among traders for consumer prices, was 1.07 percentage points, near the most since October.

Credit conditions remained tight at a majority of U.S. banks over the past three months even as lenders received infusions of taxpayer funds, a Fed report showed today.

Rates on <u>one-month notes</u> rose 10 basis points to 0.17 percent, the highest since Nov. 4, as investors began to leave the safety of the shortest-maturity government securities for higher-yielding assets.

The Treasury sold \$29 billion in three-month bills today at a high discount rate of 0.27 percent, the highest level since Nov. 10. It sold \$29 billion in six-month bills at a high discount rate of 0.39 percent, the highest since Dec. 1.

To contact the reporters on this story: Dakin Campbell in New York at

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